

Table of Contents*(h) Impairment of long-lived assets—*

The Company reviews and evaluates the impairment of long-lived assets when events or economic changes indicate that the book value may not be recovered. An impairment loss is the amount by which the book value of long-lived assets exceeds the net selling price or value in use, whichever is higher. The net selling price is the amount that may be obtained in the sale of an asset in a free market, while the value in use of an asset is the present value of estimated future flows expected to be obtained from the continuous use of an asset and its disposal at the end of its useful life. An impairment loss recognized in prior years is reversed if a change occurs in the estimates that were used last time in which such loss was recognized.

*(i) Provisions—*

A provision is recognized when the Company has a present liability (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the liability and the amount of the obligation can be reliably estimated. Provisions are reviewed periodically and adjusted to reflect the best estimate as of the date of the statement of financial position. The expense relating to any provision is shown on the statement of comprehensive income. If the time value of money is material, provisions are discounted using a pre-tax rate that reflects, when appropriate, the risk specific to the liability. When the discount is made, the increase in the provision due to passage of time is recognized as interest expense in the statement of comprehensive income.

*(j) Contingencies—*

Contingent liabilities are recorded on the financial statements when it is probable that they are confirmed in time and can be reliably measured. Possible contingencies are not recognized in the financial statements. These are disclosed in notes to the financial statements, unless the possibility of an outflow of economic benefits is remote.

Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

*(k) Revenue recognition—*

The Company recognizes revenue when the amount can be reliably measured, it is probable that economic benefits will flow to the Company and meet specific criteria for each type of income, described below. It is considered that the amount of revenue cannot be reliably measured until all contingencies related to the sale have been resolved. Revenue is recognized as follows:

*Sale of energy and power—*

Revenues from sales of electricity and power delivered unbilled are recognized as income in the month in which the service is provided based on the reports of the Committee on Economic Operation of COES-SINAC National Grid, which are issued a month after the delivery of energy. Sales of energy from Renewable Energy Resources (RER) include a premium established under the RER contracts (see note 1(b)).

*(l) Taxes—**Current income tax—*

Current income tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities, according to the existing rules for determining taxable income. The income tax is calculated based on the Company's financial information.

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